

VZCZCXRO7709  
RR RUEHBZ RUEH DU RUEHGI RUEHJO RUEHMR RUEHRN  
DE RUEH KI #0168/01 0510946  
ZNR UUUUU ZZH  
R 200946Z FEB 09  
FM AMEMBASSY KINSHASA  
TO RUEHC/SECSTATE WASHDC 9226  
INFO RUCNSAD/SADC COLLECTIVE  
RUEHXR/RWANDA COLLECTIVE  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPARTMENT OF TREASURY WASHINGTON DC  
RUEAIIA/CIA WASHDC  
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK  
RHMFISS/HQ USEUCOM VAIHINGEN GE

UNCLAS SECTION 01 OF 02 KINSHASA 000168

SENSITIVE  
SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [EAID](#) [EINV](#) [PGOV](#) [PREL](#) [CG](#)  
SUBJECT: CENTRAL BANK GOVERNOR OUTLINES PRECARIOUS  
FINANCIAL SITUATION, APPEALS TO DONORS FOR  
EMERGENCY ASSISTANCE

REF: (A) KINSHASA 1105;  
(B) KINSHASA 1100

11. (SBU) Summary: The Central Bank Governor said on February 18 that the DRC has been in a recession since the second quarter of 2008, due to both a contraction in the mining sector and the effects of the global financial crisis. He said the DRC needs USD 667 million in foreign assistance immediately in order to prevent the Government from going bankrupt. With Central Bank reserves down to less than one day of import cover and the recent devaluation of the Congolese franc (FC), the Central Bank has run out of options for correcting its balance of payments issues by itself. The IMF will soon decide whether to grant a USD 200 million Exogenous Shocks Facility for balance of payments assistance, and the World Bank and others may also contribute funds. Without immediate assistance, the Central Bank may be forced to print money in order to make already much-delayed salary payments to its civil servants. End Summary.

DRC CENTRAL BANK RAISES THE ALARM  
-----

12. (U) DRC Central Bank Governor Jean-Claude Masangu Mulongo held a press conference on February 18 to make a statement about the economic crisis and answer questions. Masangu said the DRC had not escaped the effects of the global financial crisis and officially declared that the DRC's economy has been in a recession since the second quarter of 2008, the first recession since 2001. He said overall growth in 2008 has slowed to 5.9 percent, with growth only in the first quarter and down from 6.3 percent in 2007. A decline in commodity prices, the prolonged mining contract review in the DRC, and a subsequent tightening of international credit markets combined to drive down mining exports in 2008.

13. (SBU) Masangu described the Central Bank's two critical concerns: a weaker balance of payments has driven inflation up and lowered the purchasing power of most Congolese; and the economy is not likely to rebound until the second quarter of 2009. The official exchange rate has been slowly and steadily increasing since December 2008, going from 500 Congolese francs (FC) up to today's rate of 746 FC per 1 USD. The unofficial rate in the parallel markets is currently between 775 FC and 785 FC to the dollar. A DRC Central Bank representative told econoff its reserves amount to USD 32.8 million today (February 19), which amounts to less than one day of import coverage.

NEW 1,000 CF NOTES TO HIT THE STREETS  
-----

14. (SBU) The Central Bank had planned to introduce a new 1,000 FC note at the end of March. (Note: The 500 FC note is currently the largest denomination in circulation. End note.) Some local newspapers said the Central Bank may also issue new notes in 5,000

FC and 10,000 FC denominations, but the Central Bank representative told econoff this was not true. The representative also said the GDRC may apply pressure to issue the 1,000 FC note sooner than the end of March, presumably to pay for mounting civil service and armed forces salary arrears.

¶15. (SBU) Masangu said approximately 90 percent, or USD 1.2 million, of savings accounts in the DRC's banking system is held in foreign currency, and the Central Bank has no plans to forcibly convert these holdings into Congolese francs. (Note: Former President Laurent Kabila enacted such a requirement, but President Joseph Kabila overturned the law requiring conversion into Congolese francs soon after taking over power in 2002. End note.)

HOW DO WE FIX THE PROBLEM?  
-----

¶16. (SBU) Masangu said the only solution is for the international community to provide USD 667 million in budget assistance, and quickly. He said the IMF must approve its USD 200 million Exogenous Shocks Facility (ESF) to support the DRC's balance of payments (Refs A and B). The World Bank will consider a separate USD 100 million package on February 26, and the EU and African Development Bank may also provide approximately USD 50 million each. The Central Bank has already increased their interest rate to 65 percent from 28 percent since the beginning of the year to shore up the value of the franc, and has no further assets at its disposal to correct the problem.

¶17. (SBU) Comment: The DRC is in dire need of foreign assistance in order to prevent the government from falling into complete

KINSHASA 00000168 002 OF 002

bankruptcy. While the USD 200 million ESF may only buy a month or two of time and some critics argue this only delays the inevitable, without immediate assistance the DRC will be forced to either increase the money supply by printing money or stop paying the already much-delayed salaries of police, armed forces, and civil servants. The GDRC has otherwise been making steady progress toward reestablishing the IMF's Poverty Reduction and Growth Facility program, but hyper-inflation due to currency flooding the market or further disruptions in salary payments could derail efforts to achieve recovery. End Comment.

GARVELINK